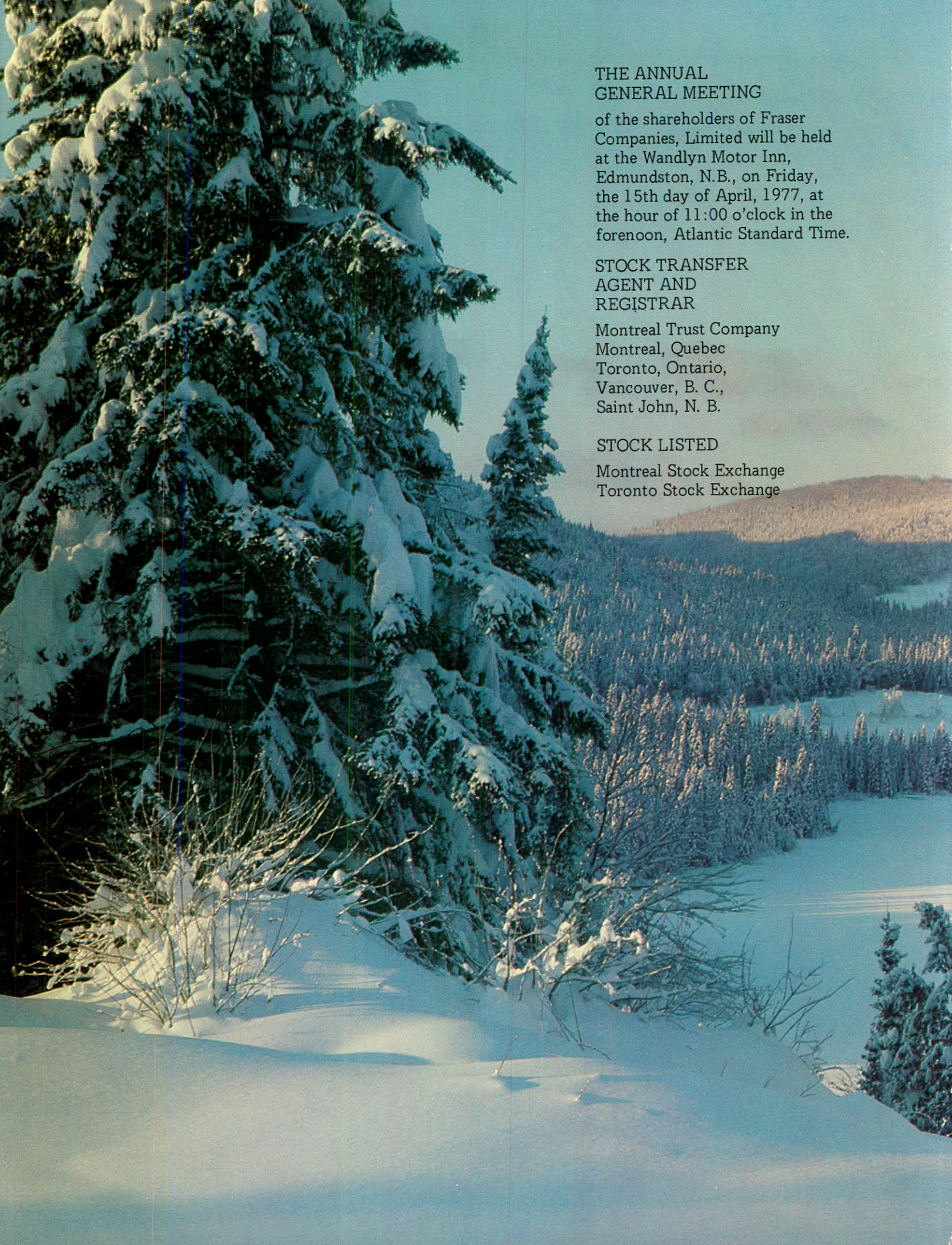


Fraser Annual Report

1976

**AIB Masses More Guns Against
Business Front. Incomes swim,
Profits Founder Under Controls.
IF IT'S ENERGY CRISIS TODAY,
WHAT WILL IT BE TOMORROW?
Keep Talking, Business,
Labor Encouraged. Canada
Competes Less & Less in World Trade.**



THE ANNUAL
GENERAL MEETING

of the shareholders of Fraser
Companies, Limited will be held
at the Wandlyn Motor Inn,
Edmundston, N.B., on Friday,
the 15th day of April, 1977, at
the hour of 11:00 o'clock in the
forenoon, Atlantic Standard Time.

STOCK TRANSFER
AGENT AND
REGISTRAR

Montreal Trust Company
Montreal, Quebec
Toronto, Ontario,
Vancouver, B. C.,
Saint John, N. B.

STOCK LISTED

Montreal Stock Exchange
Toronto Stock Exchange

Contents

PAGE

2	DIRECTORS AND OFFICERS
3	DIRECTORS' REPORT TO THE SHAREHOLDERS
4	FRASER BANK STATEMENT
5	FRASER WOODLANDS
7	FRASER WOOD PRODUCTS
8	FRASER MARKETS AND OPERATIONS
12	FRASER MODERNIZATION
14	FRASER PEOPLE
16	FRASER FINANCES
17	CONSOLIDATED FINANCIAL STATEMENTS
18	AUDITORS' REPORT TO THE SHAREHOLDERS
19	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
22	TEN YEAR COMPARISON
24	INFLATION! THE IMPACT ON FRASER

Directors and Officers

BOARD OF DIRECTORS

John M. Anderson
 Carl E. Beigie
 W. R. Clerihue * †
 Kenneth V. Cox †
 H. Roy Crabtree *
 John P. Fisher *
 C. M. Frantz
 Knut Grotterod
 David J. Hennigar * †
 A. H. Zimmerman *



John M. Anderson



Carl E. Beigie



W. R. Clerihue



Kenneth V. Cox

HONORARY DIRECTORS

Aubrey Crabtree
 L. M. Sherwood
 Frank H. Sobey

*Member of Executive Committee
 †Member of Audit Committee

OFFICERS

A. H. ZIMMERMAN
 Chairman and Chief Executive Officer
 H. ROY CRABTREE
 Vice-Chairman of the Board
 JOHN P. FISHER
 President
 K. GROTTEROD
 Senior Vice-President, Operations
 J. K. BARRY
 Vice-President, Marketing
 P. M. BELYEA
 Vice-President, Woodlands
 B. W. HICKS
 Vice-President and Secretary
 M. B. ROBINSON
 Vice-President, Finance
 R. A. KNAPP
 Vice-President, Marketing and Sales
 Fraser Paper, Limited
 K. L. SEELY
 Treasurer
 D. G. MCALARY
 Controller
 JEAN HAMMOND
 Assistant Treasurer



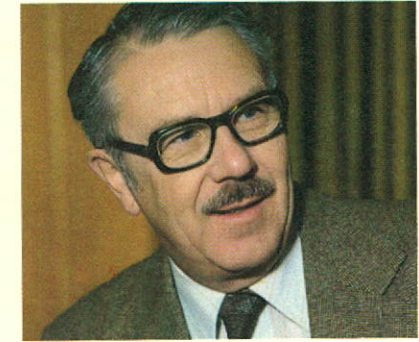
H. Roy Crabtree



John P. Fisher



C. M. Frantz



Knut Grotterod



David J. Hennigar



A. H. Zimmerman

Directors' Report to the Shareholders

In a relative sense the year 1976 was very satisfactory in the affairs of Fraser Companies, Limited. Earnings were the second best in the Company's history and major capital programmes were both completed and begun. Even with these good results the Company managed only an 11.1% return on the shareholders' equity. Although this result was better than that registered by most Canadian forest product companies, it only approximates the cost of long-term borrowing. With high rates of inflation, returns such as this or better must be sustained over the long term, in order to maintain the competitive ability of companies in this industry. Once every now and again is not enough.

Fortunately, Fraser's products are sold primarily into the United States and the American economy is probably the strongest in the world today. The renewed pace of business activity during 1976 considerably strengthened the market segments for Fraser's paper products. The increase in the number of housing starts and new construction brought lumber prices to profitable levels for the first time in two years. Nothing in view at the moment suggests that these conditions will be any less favourable during 1977.

In June the Company received the proceeds of a \$35 million 10 3/4% debenture issue, which is dedicated to the rebuild and modernization of the Edmundston pulp mill. This project has been described in other shareholder communications, but it is worth repeating that it will bring these facilities to the best of modern standards, as well as permit a modest increase in the Company's physical output. To date there have been no major surprises in the construction programme or prices for major units of

equipment. The evident dedication and effort of the workmen involved gives promise that the project should be completed as planned.

New investments are also being made in the lumber mills, which are now operating better than ever before. These will involve a new planer facility at Plaster Rock and additional whole log breakdown facilities at Kedgwick. Construction was started during the year on a tree nursery as a key element in the Company's effort to maximize the yield from its woodlands. The first seedlings from the new nursery will be produced during the 1977 season.

While recognizing the current controversy centering around the spruce budworm spraying programme, the Company supports the Provincial Government in some measure of control. The evidence is that control can be achieved without harmful side-effects if restraint is exercised in the spraying programme.

A study being conducted under the sponsorship of the Federal and Provincial Governments as well as the Company, with respect to the modernization of the Atholville sulphite pulp mill is in an advanced stage. It appears that the modernization now will have to take the form of conversion to the Magnesium Bisulphite cooking process, although the operating parameters are not yet defined. It is premature to comment on the financing or initiation of such a project.

Notwithstanding the depressed economic scene and Canadian inflation control regulations, inflation remains one of our most serious problems. In such an environment, planning, especially for new capital projects, is particularly difficult. A long-term solution will happen only when Canadians lower their expectations and demand no more of the system than it can produce.

Last year's Directors' Report discussed the problems associated with the introduction of anti-inflation legislation and the general problem of serving many interest groups. Our cover this year again symbolizes this situation, although in many ways we detect a changing public attitude. Basic industries are increasingly being seen by the public for what they are - the cornerstones of modern industrial society. The continuing non-profit performance of Canadian industry is depressing capital spending and jobs are harder to find. It may be that the place of profits and soundly based resource industries is becoming more generally understood as the seed-corn of our plenty. Fraser's management and the Noranda group of which it is a part are devoted to spreading this understanding and remain optimistic that good sense in the end will prevail in government, labour and public circles.

At the Annual Meeting in April 1976, John P. Fisher became President of the Company. In September, Mr. C. R. Recor resigned as a Director of the Company and President of Fraser Paper, Limited. Mr. Recor had served the Company well and can be credited with much of its present health.

This, and other personnel changes, resulted in the employment of Mr. R. A. Knapp, whose title will be Vice-President, Marketing and Sales of Fraser Paper, Limited. Mr. Knut Grotterod, Senior Vice-President, Operations, was elected a Director to fill the vacancy on the Board.

While it may sound trite, it is none the less a fact that the Company's main asset has been its loyal and trained employees. Without them nothing is possible, and with them the future is bright.

On behalf of the Board.

A. H. Zimmerman
Chairman

J.P. Fisher
President

Fraser Bank Statement

*Chequing privileges
permitted on this account*

DATE	ITEM	WITHDRAWAL	DEPOSIT	BALANCE
January 1, 1976				\$ 12,216,000.00
	Proceeds from sale of lumber, pulp, boxboard and paper		182,334,000.00	194,550,000.00
	Interest earned on term deposits		1,260,000.00	195,810,000.00
	Paid out for wood	36,543,000.00		
	wages	44,692,000.00		
	fringe benefits	9,223,000.00		
	fuel	21,913,000.00		
	services, chemicals, materials and supplies	42,318,000.00		41,121,000.00
	Paid to reduce debt	735,000.00		
	Paid interest on debt	468,000.00		
	Paid for new machinery and buildings	23,144,000.00		
	Paid to federal, provincial, state and local government for taxes	4,590,000.00		12,184,000.00
	Received from issue of Series B Debentures		35,612,000.00	47,796,000.00
	Received from sale of shares to employees		61,000.00	47,857,000.00
	Dividends paid to shareholders	3,821,000.00		
December 31, 1976				\$ 44,036,000.00

*Low cost personal loans for
any worthwhile purpose.*

Fraser Woodlands



Black spruce seeds



Black spruce cones



14-day old seedlings

General

The year 1976 saw some significant changes and improvements in woods operations which will be of long-term benefit to the Company in the management

of the forest resource. Overall performance was satisfactory with fiber deliveries from all sources totalling 635,000 cunits broken down by source as follows:

Company	Round	
	Wood	Chips
	(Cunits)	
Company	182,000	199,000
Others	74,000	180,000

Capital expenditures in woodlands for the year amounted to \$785,000. The major programme for the forest tree nursery is proceeding on plan and will cover a three-year period at an estimated cost of \$1.2 million. As part of this programme over 600 bushels of seed cones have already been collected from black spruce trees. Additional cones have been collected from a quantity of individual "plus" trees as the beginning of a Tree Improvement Programme to develop genetically superior trees. Planned production in 1977 will be 500,000 seedlings, increasing to 7,000,000 seedlings when the project is completed in 1979. Substantial sums were also invested in improving the primary network of woods roads and in the preparation of a new logging camp



Modern woodland lodgings

complex utilizing the more comfortable modular type housing units.

In Plaster Rock District fully mechanized harvesting was re-introduced, and tree length hauling to the sawmill was also begun.



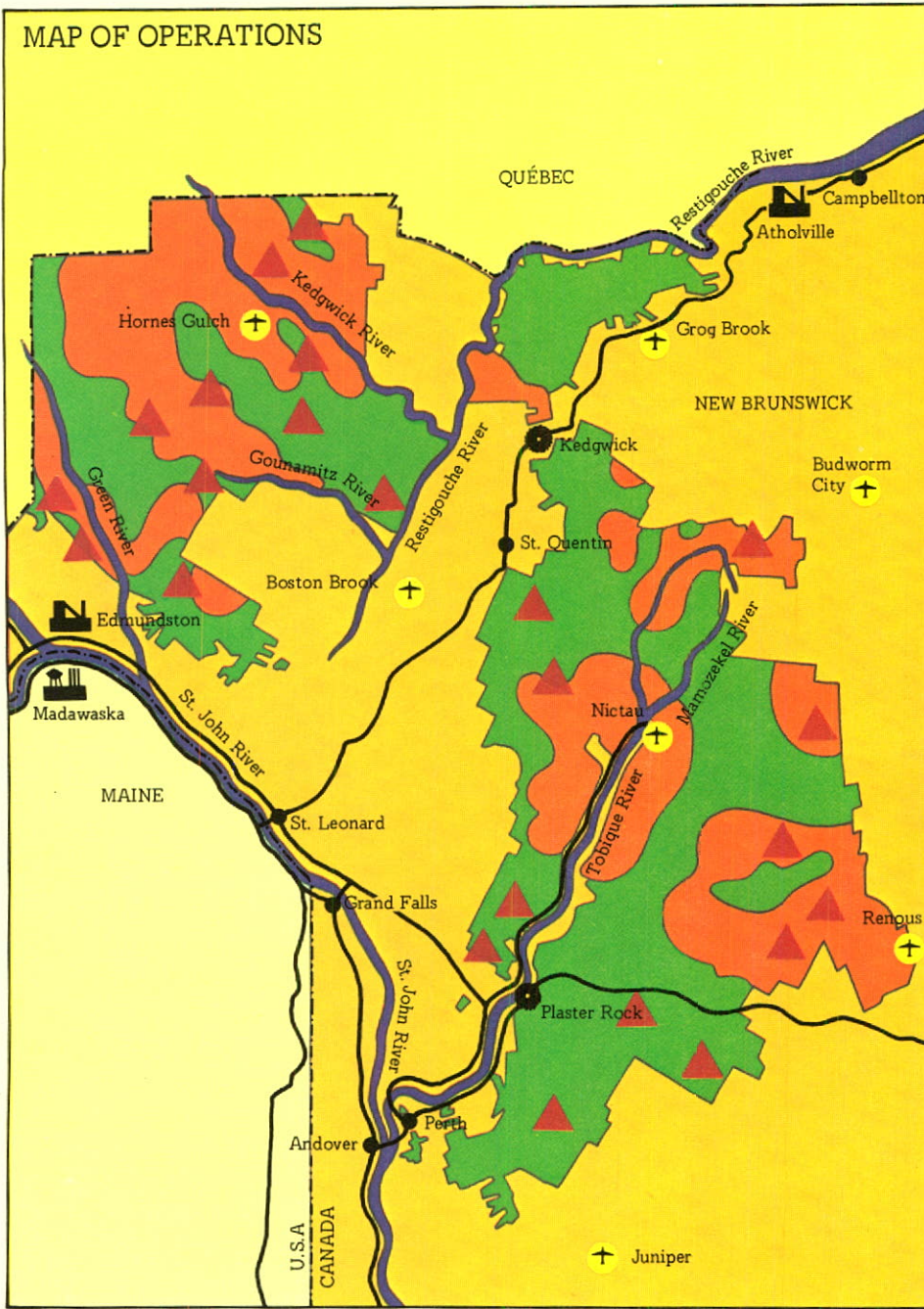
Slashing from 8-foot to 4-foot lengths

Mechanized slashing operations in the Edmundston Division were converted to the production of 8-foot instead of 4-foot pulpwood, which will result in reduced handling and loading costs.



Winter trucking

MAP OF OPERATIONS



Budworm kill

Spruce Budworm

Infestation of New Brunswick forests by the spruce budworm continues to be a major concern and cost to the Company. In 1976, about three quarters of Fraser's limits, or 1.4 million acres, were sprayed at a cost to Fraser of \$1.3 million. About one-tenth of the Company's limits are categorized as subject to extreme risk of mortality in 1977, with the major area of heavy infestation in the northern most parts of the Green River and Kedgwick watersheds.

LEGEND

- WOODLANDS ■
 - BUDWORM INFESTED AREA ■
 - WOODS OPERATION ▲
 - AIR STRIP +
 - SAWMILL ●
 - PAPER MILL ■
 - PULP MILL ■
 - HIGHWAY
 - RIVER —
- 4 2 0 4 8 12



Fraser Wood Products

On February 1, 1976, a Wood Products Group was formed with prime responsibility for the efficient and economical utilization of Fraser's wood resources. This involves, in addition to the fiber requirements for the pulp mills, the innovation and development of new ideas for wood products and their markets.

Wood Products had a very successful year with total shipments representing the second highest since 1941.

	<u>1976</u>	<u>1975</u>	<u>% Change</u>
	(M.f.b.m.)		
Shipments	57,000	46,000	+24
Production	65,000	43,000	+51

At Kedgwick, a rebuilt planer mill started up in February 1977, and a new high-temperature dry kiln will come on line in early April. A rebuild of the sawmill is planned for 1977 which will bring the annual capacity at that mill up to 40,000,000 board feet.



Prime Minister visits Kedgwick mill

A complete new planer mill will be built at Plaster Rock to replace the two outdated mills which cannot dress the present sawmill capacity of 145,000 board feet per day. This new planing mill will be able to dress additional lumber ex-

pected to develop as a result of a revamping of the sawmill to produce 170,000 board feet with an ultimate potential of 200,000 board feet per day.

In the marketplace, demand for dimension lumber was spasmodic, while boards and specialties remained relatively stable. The outlook for 1977 appears to be slightly better with a projected increase in housing starts in the United States and an anticipated modest price increment.



New planer mill at Kedgwick

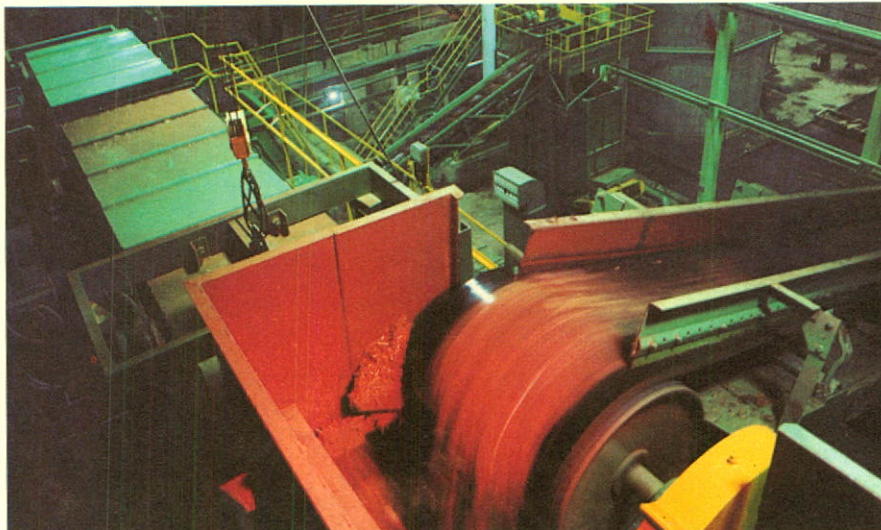
Fraser Markets and Operations

General

The manufacturing plants had a satisfactory year, with the exception of the pulp mill at Atholville which experienced a 74% operating rate. In general, shutdown time at all of the plants was used for installation of new equipment in a continuing effort to improve the overall efficiency of the Company's operations.

Conservation of energy was and continues to be a prime concern. In 1976 total corporate energy purchased in the form of oil and electricity per unit of production was reduced by 3.6%. In 1977 it is hoped to reduce this even further. At Edmundston, a refuse preparation and burning system was completed for a capital cost of approximately \$5 million. This system will result in a substantial oil saving amounting to approximately \$830,000 annually at present fuel prices.

In Madawaska the pollution abatement programme continued with the completion of two effluent clarifiers at a cost of \$1.8 million. New fresh water filters were installed in May with an immediate improvement in water quality. Also a number of in-plant projects to recycle more transport water were completed.



Bark preparation before burning - to conserve energy



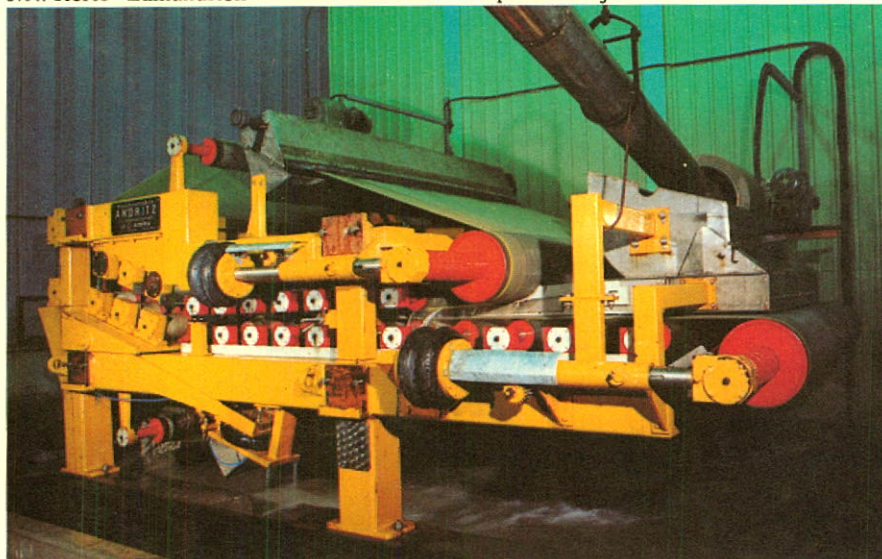
New stores - Edmundston



Chip unloading - Atholville



Twin clarifiers - Madawaska



Sludge filter - Edmundston

In the area of manufacturing services, the implementation of the stores inventory management system continued with the coding and computerization of inventory. Management of maintenance activities was an important concern with emphasis being placed on organization, productivity and control.

The report on the study, by Jaakko Poyry & Co. on finding a viable alternative manufacturing process for the mill at Atholville was received in September. Work is now in progress to assess market-ability of the various pulps which could be manufactured at Atholville and a more detailed estimate is being prepared on the Magnesium Bisulphite cooking process.

Pulp

A limited quantity of paper and tissue pulps which are the main products of the Atholville mill, is sold on the open market which was extremely weak in 1976. Most of the Atholville pulp is used by the Company to produce boxboard and paper. The curtailed operation of the fine paper machines in Madawaska had a direct effect on the operation in Atholville.

	<u>1976</u>	<u>1975</u>	<u>% Change</u>
Tons			
Shipped	70,840	54,138	+31
Operating			
Rate	74%	54%	

Work is proceeding on the relining of No. 5 Digester and the rebuild of No. 3A Blow Pit, both of which jobs will be completed in 1977.

World inventory of market pulp reached record levels in the fourth quarter of 1976, and no immediate improvement is expected through the first half of 1977. In the latter half of this year, however, the market is expected to be more favourable with some slight improvement in demand and prices.

At Edmundston, the groundwood mill operated at capacity to supply demand for both groundwood papers and boxboard. In the sulphite mill a programme to reline all of the digesters is underway. Other revisions to the digesters to tie in with the modernization project are being carried out in conjunction with this relining programme. The production rate is approximately 90% of capacity during this programme, which is expected to take about one year to complete.

Boxboard

Fraser produces coated and uncoated folding boxboard at Edmundston, which is sold for packaging for a variety of products including frozen foods, detergents, cosmetics and pharmaceuticals. Product mix throughout the year reflected an appreciable shift to the greater use of coated grades of board. The primary markets for the Company's boxboard production are Quebec and Ontario, with some shipments to converters in the Maritimes. During 1976, shipments of Fraser boxboard reached a record level. These record shipments were assisted in part by the impact of work stoppages at several other producing mills.

	<u>1976</u>	<u>1975</u>	<u>% Change</u>
Tons			
Shipped	32,600	30,300	+8
Operating			
Rate	98%	95%	



Boxboard products



Newly painted boxboard machine

A new pressure former was installed and resulted in quality improvement and a reduction in bleached fibre consumption.

Because of an excess in domestic production capacity and relatively higher production costs, the Canadian boxboard industry is seriously concerned with the increasing percentage of imports at the converter level. This may necessitate some shift in Fraser's product mix to maintain acceptable levels of profitability. In view of the forecast for the Canadian economy, market conditions are expected to be very competitive in 1977.

Groundwood Papers

Groundwood papers constituted 56% of paper shipments from the Madawaska mill with demand for these papers increasing as the year progressed.

Lightweight uncoated grades are used mainly in catalogues and telephone directories, and an increasing tonnage in lower basis weight grades for such applications as transportation schedules

and guides. Coated paper is used in magazines, catalogues, commercial printing, and for conversion purposes.

The major markets for these papers include Eastern and Midwest United States, Eastern Canada and Puerto Rico, with small quantities also being shipped to Europe, Central and South America and Australia.

Paper machine production rates improved during the year

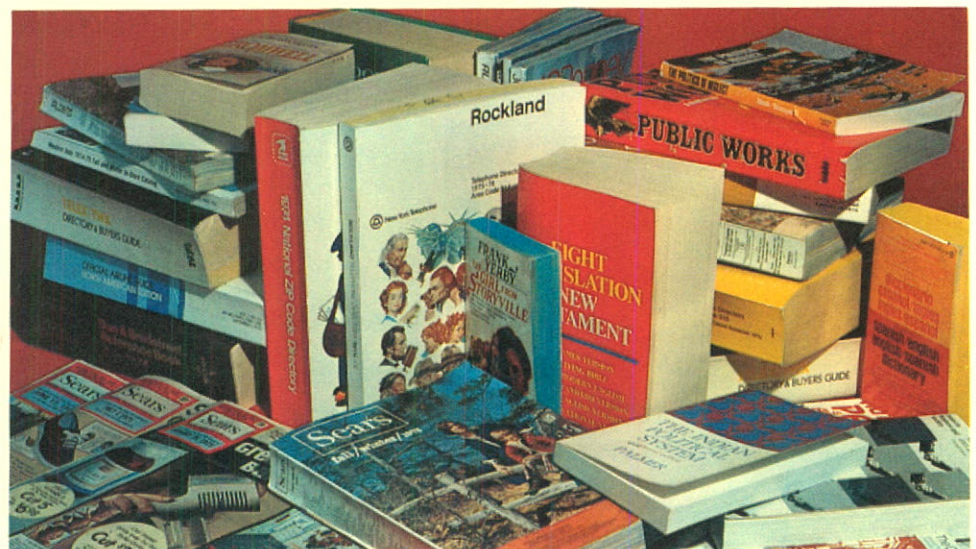
with higher machine efficiency. Considerable improvement in quality and productivity was achieved in the coating operation.

	1976	1975	% Change
Tons Shipped	212,000	175,000	+21
Operating Rate	99%	84%	

Market conditions improved in the first quarter and are expected to continue very strong in 1977, particularly in the lightweight coated grades which are sensitive to catalogue and magazine industry activities.

Fine Papers

Fraser is a major producer of business forms papers which constitute the largest portion of fine paper shipments. A broad range of specialty grades completes this product line. Carbonless business forms, chart paper, reproduction papers for office copiers, trading stamps, swab sticks, place mats, are examples of end products produced from these specialty grades.



Groundwood paper products

As a result, Fraser sells to a wide variety of customers, primarily in the Eastern and Mid-west United States and Eastern Canada, and to a lesser extent in Puerto Rico and Australia. Consequently sales volume is closely tied to the overall economic climate. 1976 results reflect this in terms of tonnage sold. Throughout the first and second quarters, the Company's sales of fine papers were at capacity. In the third and fourth quarters, economic activity slowed somewhat.

	1976	1975	% Change
Tons Shipped	163,000	128,000	+27%
Operating Rate	93%	67%	



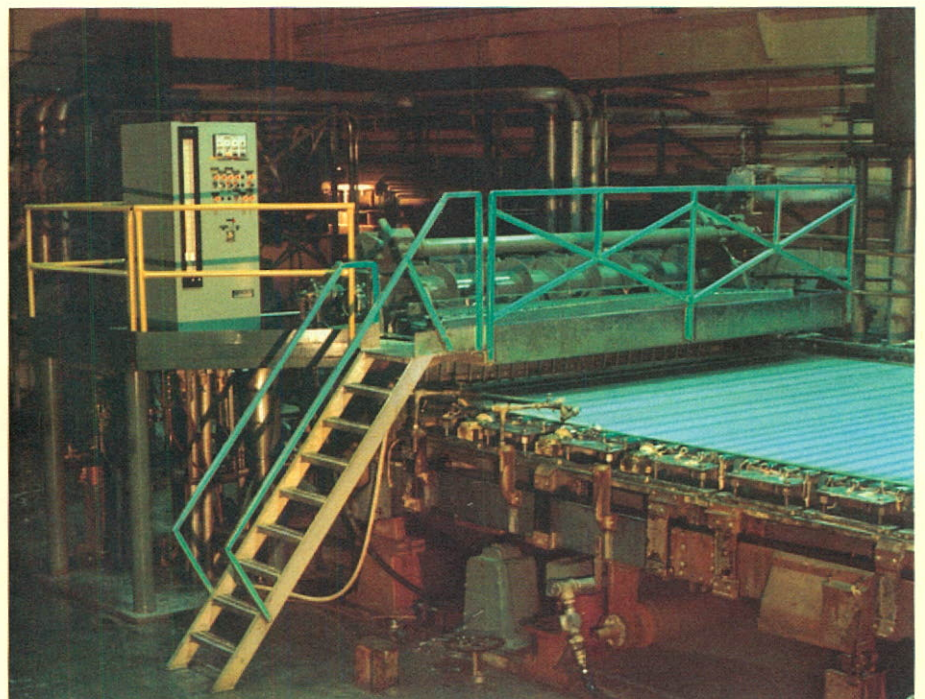
Fine paper products



New dryer hood - No. 3 Paper Machine

When paper machine downtime was incurred to balance capacity with order receipts, some rebuilding of the machines was scheduled. A new dryer hood and drive controls were installed late in the year on No. 3 Paper Machine to complete a \$1.25 million rebuild. This will result in a saving of 475,000 gallons of oil annually when the full potential of the rebuild is realized. A new high turbulence headbox was

installed on No. 1 Paper Machine in October with an immediate improvement in quality and yield. The market for fine papers will strengthen with the economy which then should produce a concurrent upswing in Fraser sales. Two major competitor installations, coming on stream between December 1976 and May 1977, are expected to have a depressing effect on this sector of the paper market.



New headbox - No. 1 Paper Machine

Fraser Modernization

The project for the modernization and rebuild of the Edmundston pulp mill, which was marked by an impressive groundbreaking ceremony in July, is proceeding satisfactorily with the first phase of construction well underway and all major process equipment now on order.

For ease of engineering and construction, the project has been divided into three major categories: Washing and Screening, Digesters, and Recovery. At year end the structural steel and foundations for the washing and screening area were essentially complete,

and a new 500,000 gallon acid tank has been erected. Four digesters have now been relined and modified to provide connections for new higher efficiency circulating systems, and work is progressing on the primary and secondary effluent sewers. From an environmental aspect, apart from decreasing dependability on purchased fuels and chemicals, the new process will drastically reduce particulate emission and effluent loading on the river. Particular attention has been given to Environment New Brunswick regulations for air

emissions and the equipment purchased for the recovery system will conform to those regulations, in addition to which in-plant facilities are being built to reduce water contaminates.

A most vital component of the rebuild project is the effective education and retraining of the supervisory and operating staff. New concepts will be incorporated in the training programme to provide a broader understanding of the pulping process and a greater awareness of cost control.



Steel riggers at work



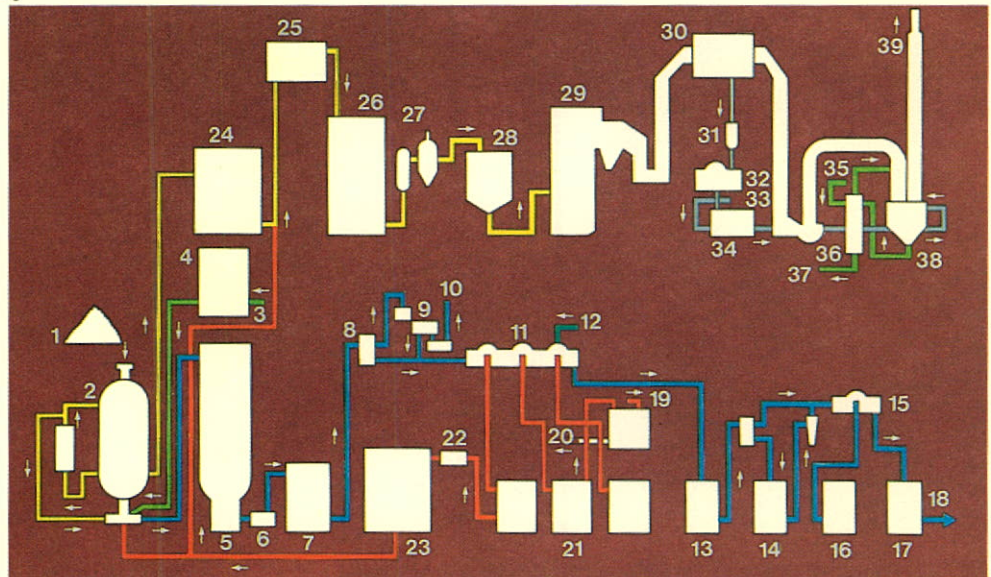
Construction of new washing and screening building

Process Flow Diagram

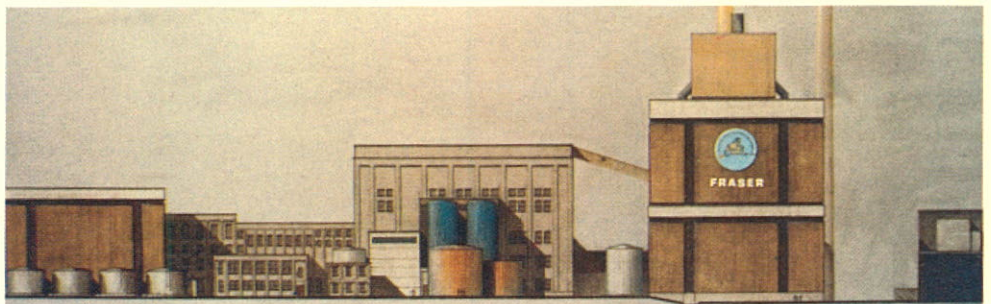
Wood chips are fed to eight digesters where they are cooked with steam and pulping liquor. Pulp is formed and pumped to two dump tanks. To remove impurities such as knots and residual liquor, the pulp is cleaned in washers and screens prior to further processing into paper and boxboard.

In the recovery process, liquor containing chemicals and combustible solids is drawn from the digesters and washers and thickened in evaporators. By burning the thickened liquor, heat is generated in the recovery boiler for use in the cooking process. The chemicals, such as magnesium and sulphur contained in the boiler flue gas are recovered in an electrostatic precipitator and recovery tower respectively, to form fresh cooking liquor for re-use in the wood chip cooking cycle.

Apart from decreasing the dependence on purchased fuels and chemicals, the new process also drastically reduces particulate emission and effluent loading on the river.



- | | | |
|-------------------------------|---------------------------------------|-----------------------------------|
| 1. CHIPS | 15. THICKENER | 28. HEAVY LIQUOR STORAGE |
| 2. DIGESTERS | 16. SEAL TANK | 29. RECOVERY BOILER |
| 3. (FROM FORTIFICATION TOWER) | 17. UNBLEACHED PULP DISTRIBUTION TANK | 30. PRECIPITATOR |
| 4. COOKING ACID | 18. (TO BLEACHING & MACHINES) | 31. MgO TANK |
| 5. DUMP TANK | 19. (SPILLS) | 32. ASH WASHER |
| 6. DEFIBERER | 20. (RETURN TO SYSTEM) | 33. (MgOH) |
| 7. BLEND TANK | 21. SEAL TANKS | 34. SLURRY |
| 8. KNOTTER | 22. COOLER | 35. (SO ₂) |
| 9. DRAINER | 23. FLUSHING LIQUOR | 36. FORTIFICATION TOWER |
| 10. (TO BARK BOILER) | 24. DRAINED LIQUOR STORAGE | 37. (TO COOKING ACID TANK) |
| 11. LIQUOR RECOVERY WASHERS | 25. LIQUOR FILTER | 38. COOLING & ABSORPTION VENTURIS |
| 12. (HOT WASH WATER) | 26. WEAK LIQUOR STORAGE | 39. TO ATMOSPHERE |
| 13. THREE-STAGE SCREENING | 27. MULTI-EFFECT EVAPORATORS | |
| 14. THREE-STAGE CLEANING | | |



New look at Edmundston

Fraser People

The Fraser people through their efforts and goodwill continue to make a major contribution to the success of the Company's operations. To more effectively serve their interests and the Company's role outside the corporate sphere, an overall Corporate Relations Department has been formed. Within this department, there has been a restructuring of the former administrative and personnel responsibilities, and the creation of a new Public Relations function which will enable the Company to more effectively communicate its policies and programmes to employees and the public at large.

Throughout the year, Fraser continued to enjoy essentially uninterrupted good and constructive labour relations in all areas of its operations. Most of the Company's labour agreements terminated in 1976 and new contracts were negotiated generally in line with applicable industry patterns. However, some of the Canadian settlements had to be modified to conform to Anti-Inflation Board rulings.

In all, twelve contracts expired during the year. Three-year agreements were negotiated and signed with mill and office employees at Edmundston and Atholville and a two-year contract with workers at the Plaster Rock sawmill. Contracts were also successfully concluded for a three-year period with Woodlands employees in the Edmundston, Restigouche and Plaster Rock Districts, as well as the scalers and clerks in the Restigouche District. Two-year agreements covering employees at the Madawaska paper mills were also successfully concluded.

The Company continues to stress safe operations for its employees, and commendable successes were achieved again in 1976 throughout the Woodlands and at the mills in Kedgwick and Plaster Rock, as well as at the pulp mill in Atholville. Although equal emphasis was placed on safety in our pulp and paper mills at Edmundston and Madawaska, results did not meet our expectations. We will continue to stress safe operations in these areas through newly created safety committees, programmes, and award systems to foster and encourage higher standards of safety performance.

In all the communities where the Company has operations, it is one of the major employers. Thus there is an important interdependency between the Company and the people. Fraser recognizes this responsibility, and the contributions the employees make to the Company and to the community at large. There is also an indirect relationship with other townspeople as well. The scholarship awards' programme continues to be one of the ways the Company expresses this recognition.

Three scholarships, each totalling \$4,000, are now awarded annually to graduates of secondary schools for the furtherance of their education. A Community scholarship is available to any student who resides in the area of a Fraser manufacturing operation. An Engineering and a Science scholarship are available to a son or daughter of a Fraser employee.



Baked daily



Millwright setting up scaffold



Checking out sawmill design



Lunch break



Millwright at work



Checking paper machine



Systems analyst



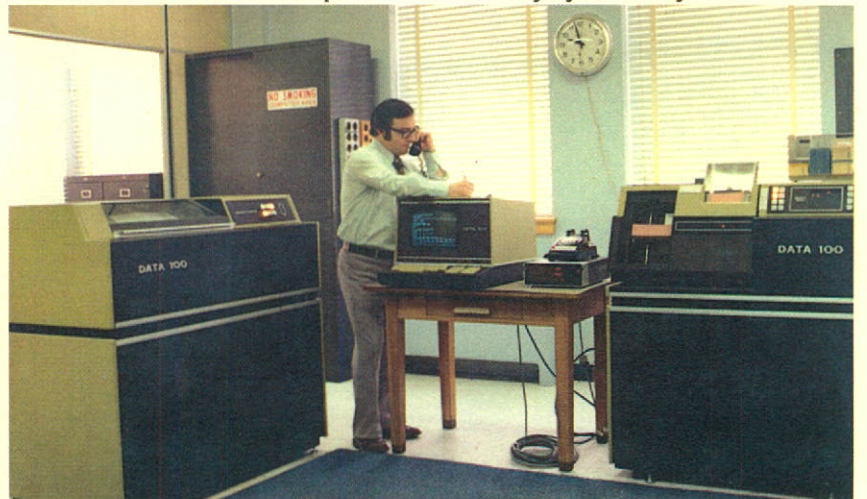
Eastern Canada Badminton Champion



Getting a good reading



Twin saw operator



Computer tie-in with Norcomp

Fraser Finances

FINANCIAL HIGHLIGHTS

FOR THE YEAR:

	1976	1975	1974
Net sales	\$180,654,000	\$142,775,000	\$158,228,000
Net earnings from operations	11,051,000	7,212,000	14,892,000
Net earnings per share	4.71	3.08	6.35
Dividends paid per share	1.63	1.60	1.40
Cash flow from operations	21,147,000	15,049,000	22,581,000
Cash flow per share	9.02	6.42	9.63
Additions to plants and properties - net	23,144,000	9,186,000	5,886,000

AT YEAR END:

Working capital	64,809,000	36,807,000	35,467,000
Long-term debt	43,712,000	8,909,000	9,719,000
Shareholders' equity	103,437,000	96,207,000	92,746,000
Shareholders' equity per share	44.12	41.04	39.56

In 1976 Fraser had record sales both in volume of shipments and the dollar value of those shipments, and net income was the second highest ever achieved, computed in accordance with generally accepted accounting principles.

Net sales of \$180,654,000 were up 27% over last year's \$142,775,000. Net income rose 53% to \$11,051,000 or \$4.71 per share compared with \$7,212,000 or \$3.08 per share in 1975.

Return on average shareholders' equity increased to 11.1% from 7.6% in 1975. The return nevertheless is well below the 17.1% achieved in 1974, and is well below a rate which must be realized consistently due to inflation levels in order to attract the necessary capital to finance new ventures and for future modernization and expansion of existing facilities.

The Canadian dollar in relation to the U.S. dollar experienced dramatic swings during 1976, ranging from \$1.04 to 96¢. In January the Canadian dollar was at a discount, then it moved quickly to a premium, reaching 4% at one point, until late November when it fell sharply to a discount of 4% and finally ended the year at just under 1% discount. Since the Canadian dollar was at substantial premiums most of the year, a foreign exchange loss of \$1,701,000 was incurred in 1976. Last year a gain on foreign exchange of \$2,144,000 was realized.

The effective income tax rate for 1976 was 33% compared with

37% in 1975. Taxes on income this year were reduced by \$2,132,000 resulting from the application of Canadian and U.S. federal investment tax credits. Last year investment tax credits of \$221,000 were utilized.

Cash flow provided by normal operations increased in 1976 by 41% to \$21,147,000 equivalent to \$9.02 per share.

In April existing long-term debt was reduced by \$809,000. The long-term financing for the Edmundston pulp mill modernization and expansion programme referred to in the 1975 Annual Report was completed in June. This financing involved the private placement of U.S. \$35,000,000 (Canadian \$35,612,000) of new 10 3/4% Series B Debentures due 1981 to 1992. Also, an exchange was arranged of the existing 5 1/8% First Mortgage and Collateral Trust Bonds for a like amount of new 6 1/8% Series A Debentures due 1977 to 1987. Long-term debt outstanding at December 31, 1976 was \$43,712,000 which is equivalent to 42% of shareholders' equity.

Net additions and improvements to plants and properties increased from \$9,186,000 in 1975 to \$23,144,000 this year - the highest in six years. This amount includes major expenditures of \$11 million on the Edmundston pulp mill modernization and expansion programme, \$3.6 million to complete the bark and refuse burning boiler at Edmundston, \$1.1 million on the No. 3 Machine rebuild at Madawaska

and \$1.1 million on modernization and improvement projects at the sawmills.

Dividends in 1976 were paid at the rate of 40¢ per share for each of the first three quarters, and increased by the 8% permissible under AIB to 43¢ per share for the fourth quarter. Total dividends paid in 1976 increased to \$3,821,000 or \$1.63 per share compared with \$3,751,000 or \$1.60 per share in 1975.

Shareholders' equity at year-end was up to \$103,437,000 equivalent to \$44.12 per share compared with \$96,207,000 or \$41.04 per share at the end of 1975.

Fraser Companies, Limited is subject to the Anti-Inflation Programme legislation with respect to prices, profits, compensation and dividends. Available information indicates that the Company was in compliance with the programme in 1976. All necessary steps and action will continue to be taken to ensure future compliance.

In addition to the required financial statements, three supplemental financial presentations have been included again this year. On page 4 a bank statement is shown which simply summarizes by major items Fraser's cash transactions for the year. Inflation continues to be a problem and its effect is not revealed by traditional accounting methods. Two statements appearing on page 24 are intended to display "real" profits and "real" rates of return on equity after taking account of inflation.

Fraser Companies, Limited and Subsidiaries

Consolidated Statement of Financial Position

As at December 31 (in thousands of dollars)	1976	1975
Current assets:		
Cash, short-term deposits and commercial notes	\$44,036	\$12,216
Accounts receivable	15,638	17,289
Inventories (note 2)	27,710	22,931
Income taxes recoverable	-	488
Prepaid expenses	564	640
Total current assets	<u>87,948</u>	<u>53,564</u>
Current liabilities:		
Accounts payable and accruals	19,439	15,995
Income taxes payable	2,943	-
Long-term debt due within one year	757	762
Total current liabilities	<u>23,139</u>	<u>16,757</u>
Working capital	64,809	36,807
Due under Stock Purchase Plan (note 6)	203	259
Income taxes (note 3)	653	-
Fixed assets (note 4)	91,859	76,257
Deferred financing expenses	370	-
Working capital and other assets employed	<u>157,894</u>	<u>113,323</u>
Long-term debt (note 5)	43,712	8,909
Deferred taxes on income	10,745	8,207
	54,457	17,116
Shareholders' equity (note 6)	<u>\$103,437</u>	<u>\$96,207</u>
Represented by:		
Capital stock	\$ 5,985	5,985
Retained earnings	97,452	90,222
	<u>\$103,437</u>	<u>\$96,207</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Adam H. Zimmerman, Director



John P. Fisher, Director

Fraser Companies, Limited and Subsidiaries

Consolidated Statements of Earnings and Retained Earnings

Year ended December 31 (in thousands of dollars)	1976	1975
Earnings:		
Net sales	\$180,654	\$142,775
Cost of sales	149,514	119,336
Depreciation and depletion	7,542	7,373
Selling, general and administrative expenses	8,080	7,015
	<u>165,136</u>	<u>133,724</u>
	15,518	9,051
Other income (expenses):		
Interest income (note 7)	1,260	1,554
Interest on long-term debt (note 7)	(468)	(479)
Gain (loss) on foreign exchange	(108)	1,091
Miscellaneous (net)	221	222
	<u>905</u>	<u>2,388</u>
Earnings before income taxes	16,423	11,439
Taxes on income (note 8)	5,372	4,227
Net earnings	\$ <u>11,051</u>	\$ <u>7,212</u>
Earnings per Class "A" and Class "B" share	\$ <u>4.71</u>	\$ <u>3.08</u>
Retained earnings:		
Balance at beginning of year	\$ 90,222	\$ 86,761
Net earnings	11,051	7,212
	<u>101,273</u>	<u>93,973</u>
Dividends paid - \$1.63 per share (1975 - \$1.60)	3,821	3,751
Balance at end of year	\$ <u>97,452</u>	\$ <u>90,222</u>

See accompanying notes to consolidated financial statements.

Auditors' Report to the Shareholders

We have examined the consolidated statement of financial position of Fraser Companies, Limited and subsidiaries as of December 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries as of December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Montreal, Quebec, Canada
February 16, 1977

Fraser Companies, Limited and Subsidiaries

Consolidated Statement of Changes in Financial Position

Year ended December 31 (in thousands of dollars)	1976	1975
Source of funds:		
Net earnings	\$11,051	\$ 7,212
Add items not requiring expenditure of funds:		
Depreciation and depletion	7,542	7,373
Deferred taxes on income	2,538	464
Amortization of financing expenses	16	-
Funds provided from operations	<u>21,147</u>	<u>15,049</u>
Issue of Series B debentures	35,612	-
Stock Purchase Plan	56	38
Total funds provided	<u>56,815</u>	<u>15,087</u>
Application of funds:		
Income taxes (note 3)	653	-
Financing expenses - Series B debentures	386	-
Additions and improvements to plants and properties - net	23,144	9,186
Redemption of long-term debt	809	810
Dividends	3,821	3,751
Total funds used	<u>28,813</u>	<u>13,747</u>
Increase in working capital	28,002	1,340
Working capital at beginning of year	<u>36,807</u>	<u>35,467</u>
Working capital at end of year	<u>\$64,809</u>	<u>\$36,807</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements December 31, 1976

1. ACCOUNTING POLICIES:

The Company and its subsidiaries follow accounting principles which are generally accepted in Canada. A summary of significant accounting policies of the Company is set out below.

BASIS OF PRESENTATION OF FINANCIAL STATEMENTS:

The accompanying financial statements include on a consolidated basis the accounts of the Company and its subsidiaries, all of which are wholly-owned. The principal operating subsidiary is Fraser Paper, Limited

which owns and operates a paper mill in Madawaska, Maine.

FOREIGN EXCHANGE:

Current assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at balance sheet dates except for those amounts covered by forward sales of other currencies, when contracted rates are used. Long-term debt is carried at the Canadian dollar proceeds received when converted and fixed assets at exchange rates in effect at the transaction dates. Income and expenses are trans-

lated at average rates prevailing during the year except for depreciation which is translated at the rates prevailing when fixed assets were acquired. Gains or losses on foreign exchange are reflected in the statement of earnings.

INVENTORIES:

In general, pulpwood and logs, raw materials and supplies are carried at cost or replacement cost whichever is lower. Goods in process and finished products are valued at the lower of cost and net realizable value.

Notes to Consolidated Financial Statements (CONTINUED)

FIXED ASSETS:

The costs of additions, betterments and renewals are capitalized and expenditures for maintenance and repairs are charged to expense.

Government grants received in connection with the construction or expansion of production facilities are credited to the cost of such assets. At the time of disposal or retirement of plant and property, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statement of earnings.

Buildings, machinery and equipment are depreciated, generally on a straight-line basis, at rates estimated to amortize the cost of each asset over its economic life. Rates in use for the principal classes of such assets are as follows:

Buildings	2 1/2%
Production machinery	6 1/4%
Automotive and mechanized woods equipment	10% to 25%

Logging roads, bridges and camp facilities are written off on a straight-line basis over 10 years and amortization of timber limits is determined on a basis related to production.

FINANCING EXPENSES:

Expenses relating to the issue of long-term debt are amortized on a straight-line basis over the term of the debt.

INTEREST:

Interest expense is charged against income as incurred except where it can be identified with a major capital expenditure program. Such interest is capitalized during the construction period, net of any related revenue from temporary investment of borrowed funds held for capital expenditures.

RESEARCH AND DEVELOPMENT:

Research and development expenses are charged against earnings as incurred.

INVESTMENT TAX CREDITS:

Canadian and U.S. federal investment tax credits are recognized as a reduction in the provision for income taxes in the years in which such credits are claimed for tax purposes.

EARNINGS PER SHARE:

Earnings per share are calculated using the weighted average number of shares outstanding during the year.

2. INVENTORIES:

	1976	1975
	(\$000's)	
Pulpwood and logs, including advances	\$10,997	\$ 9,869
Raw materials and supplies	10,967	8,556
Goods in process and finished products	5,746	4,506
	<u>\$27,710</u>	<u>\$22,931</u>

3. INCOME TAXES:

The Company has received re-assessments for the 1970 through 1973 taxation years with respect to the treatment of certain income for tax purposes in 1970 and 1971. The Company disputes the position taken by Revenue Canada and income taxes assessed and paid have been treated as recoverable pending the outcome of appeals against the assessments. If the appeals are unsuccessful, this amount will be written off against retained earnings.

4. FIXED ASSETS:

	1976	1975
	(\$000's)	
Plants and properties	\$202,224	\$180,520
Less accumulated depreciation	110,610	104,545
	<u>91,614</u>	<u>75,975</u>
Freehold and leasehold properties	7,947	7,957
Less accumulated depletion	7,702	7,675
	<u>245</u>	<u>282</u>
	<u>\$ 91,859</u>	<u>\$ 76,257</u>

5. LONG-TERM DEBT:

	1976	1975
	(\$000's)	
First Mortgage and Collateral Trust Bonds:		
5 1/8% due 1987 - \$8,250,000 U.S.	\$ -	\$8,909
Sinking Fund Debentures:		
6 1/8% Series A due 1987 - \$7,500,000 U.S.	8,100	-
10 3/4% Series B due 1992 - \$35,000,000 U.S.	35,612	-
	<u>\$43,712</u>	<u>\$8,909</u>

The Series A Debentures were issued in exchange for the outstanding first mortgage bonds, in conjunction with the issue of the Series B Debentures. They are carried at the same Canadian dollar amount as the exchanged first mortgage bonds.

Repayments, in U.S. dollars, required on the Sinking Fund Debentures over the next five years are \$750,000 per annum in each of the years 1977 to 1980 inclusive and \$3,080,000 in 1981.

6. SHAREHOLDERS' EQUITY:

Capital stock - convertible common shares without nominal or par value:

	<u>Authorized</u>
Class "A"	5,000,000 shares
Class "B"	5,000,000
	<u>Issued</u>
Class "A"	2,210,738 shares
Class "B"	133,664

The only distinction between the two classes, which are convertible into one another on a share for share basis, is that the directors may specify that cash dividends on Class "B" shares be paid out of 1971 capital surplus on hand (as defined in the Income Tax Act).

No shares were issued in 1976 pursuant to the provisions of the Stock Purchase Plan whereby shares may be issued for the account of certain employees at the discretion of the directors. Payment for shares issued under the Plan is made by employees in instalments so that the aggregate purchase price will be paid within ten years. At December 31, 1976 the Trustee held 12,270 Class "A" shares as collateral for the unpaid balances aggregating \$261,000 at that date.

RETAINED EARNINGS:

At December 31, 1976, retained earnings include approximately \$43 million of 1971 capital surplus on hand. It is the intention of the directors, if, as and when dividends may be declared on the Class "B" shares, to specify that such dividends be paid out of this 1971 capital surplus.

The Trust Indenture pursuant to which the Sinking Fund Debentures were issued contains, among other usual covenants, a restriction on the payment of cash dividends. At December 31, 1976, approximately \$9.5

million of retained earnings was not subject to such restrictions on distribution.

7. INTEREST ON LONG-TERM DEBT:

	1976	1975
	(\$000's)	
Total interest	\$2,431	\$479
Less charged to capital cost of expansion program	1,963	-
	<u>\$ 468</u>	<u>\$479</u>

The charge to the capital cost of the expansion program was reduced by \$1,096,000 of interest income earned on temporary investment of borrowed funds not immediately required for project expenditures.

8. INVESTMENT TAX CREDITS:

Taxes on income have been reduced by \$2,132,000 (1975 - \$221,000) resulting from the application of Canadian and U.S. federal investment tax credits.

9. COMMITMENTS:

The capital cost of the Company's program to increase production capacity and efficiency and to meet prescribed environmental standards at Edmundston Mill over the years 1976 to 1979, is estimated at \$91 million. Of this amount approximately

\$11 million has been paid or provided for in the accounts at December 31, 1976 and there were contractual commitments for a further \$20 million at that date.

At December 31, 1976, contractual commitments for capital expenditures not forming part of the above program amounted to approximately \$1.5 million.

10. PENSION PLANS:

According to the latest actuarial reports on the Company's pension plans, there was an unfunded liability as of December 31, 1975 of \$5,625,000, due primarily to plan amendments in previous years, which will be amortized by annual payments of \$589,000 for thirteen years as recommended by the actuaries.

Additionally, according to a preliminary valuation as of January 1, 1976 of the plans of Fraser Paper, Limited, computed in accordance with recent U.S. legislation, there was an unfunded liability at that date of approximately \$5,700,000 which is being amortized over periods of not more than forty years at approximately \$335,000 per annum.

11. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Aggregate remuneration to persons who served as the Company's ten directors and as officers of the Company at any time during the year was as follows:

	1976		1975	
	13 Directors	14 Officers	10 Directors	14 Officers
Remuneration paid by:				
Fraser Companies, Limited	\$43,000	314,000	44,000	295,000
Fraser Paper, Limited	-	152,000	-	153,000
	<u>\$43,000</u>	<u>466,000</u>	<u>44,000</u>	<u>448,000</u>

At December 31, 1976, there were ten directors and eleven officers. Four officers of the Company were also directors.

12. ANTI-INFLATION LEGISLATION:

Fraser Companies, Limited is subject to, and believes it has complied with, anti-inflation legislation with respect to prices, compensation and dividends. The restrictions applicable to dividends will limit the common share dividend rate to a maximum of \$1.73 per share for the one year period ending October 13, 1977.

Distribution of the 1976 Sales dollar

TO OUTSIDERS
for pulpwood, materials
supplies and services

TO EMPLOYEES
for wages, salaries
and benefits

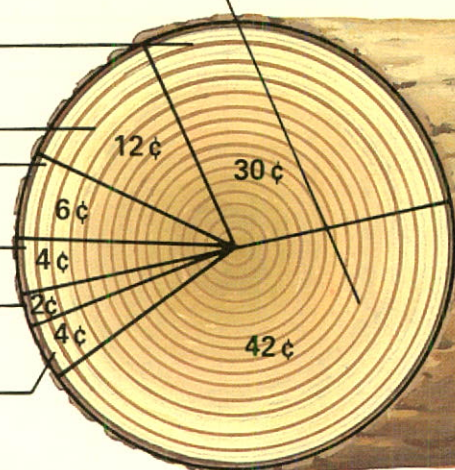
FOR ENERGY

FOR TAXES
federal, provincial
state and local

FOR DEPRECIATION
AND DEPLETION

TO SHAREHOLDERS
by dividends as a return
on their investment

THIS LEFT
for use as working capital and
for plant improvement and expansion



Ten Year Comparison

FOR THE YEAR

SALES AND EARNINGS DATA (\$000's)

	1976	1975	1974	1973	1972	1971
Net sales	\$ 180,654	\$ 142,775	\$ 158,228	\$ 111,913	\$ 90,926	\$ 62,639
U.S. exchange gain (loss)	(1,701)	2,144	(3,168)	18	(382)	372
Interest on long-term debt	468	479	497	547	583	622
Depreciation and depletion	7,542	7,373	6,796	6,400	6,294	5,272
Selling, general and administrative expenses	8,080	7,015	5,665	4,787	4,450	5,244
Taxes on income	5,372	4,227	10,793	6,424	(685)	(5,648)
Net earnings (loss) from operations	11,051	7,212	14,892	7,753	(751)	(4,856)
Extraordinary items (net)	-	-	-	5,916	-	-
Net earnings for the year	11,051	7,212	14,892	13,669	(751)	(4,856)

FINANCIAL POSITION DATA (\$000's)

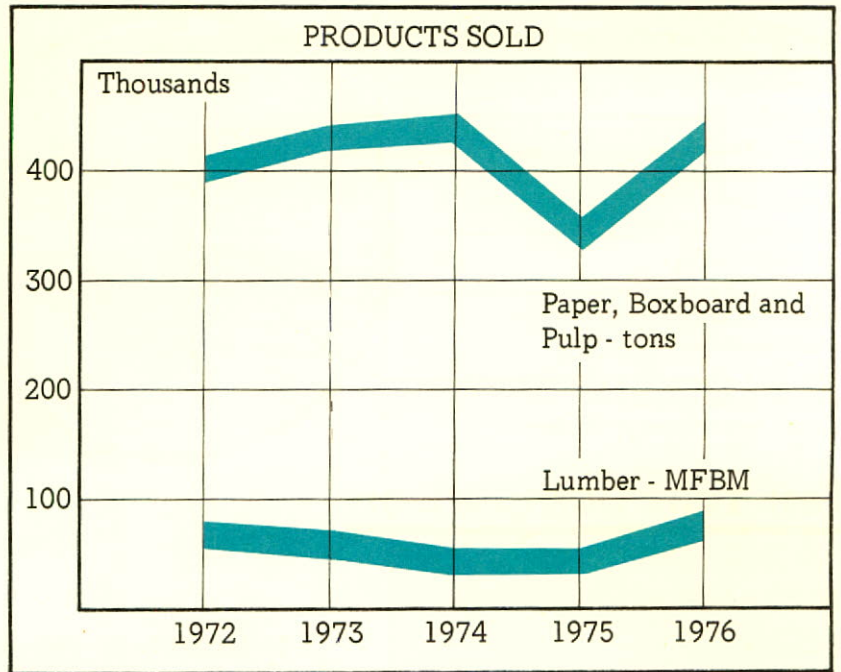
Working capital	64,809	36,807	35,467	21,763	11,741	6,965
Cash flow from operations	21,147	15,049	22,581	19,293	4,765	(4,349)
Net additions to plants and properties	23,144	9,186	5,886	7,310	1,909	14,785
Long-term debt at end of year	43,712	8,909	9,719	10,529	11,339	12,149
Deferred taxes on income	10,745	8,207	7,743	6,850	1,710	2,427
Shareholders' equity at end of year	103,437	96,207	92,746	81,054	67,445	68,422

OTHER FINANCIAL DATA

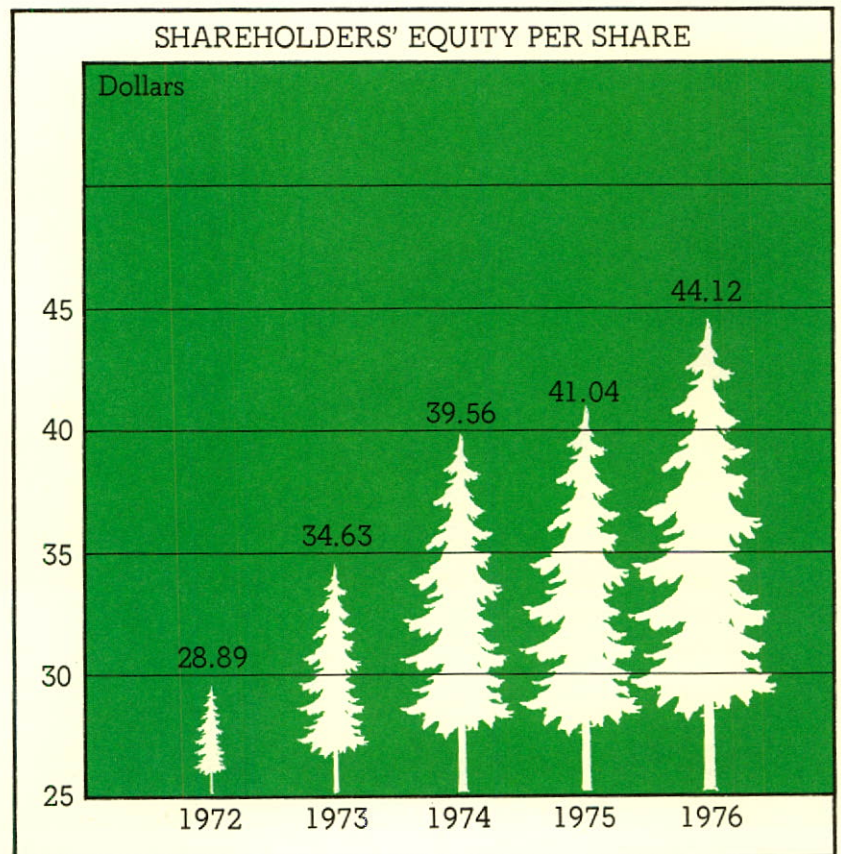
Net earnings (loss) from operations per share	4.71	3.08	6.35	3.31	(0.32)	(2.08)
Extraordinary items (net) per share	-	-	-	2.53	-	-
Net earnings for the year per share	4.71	3.08	6.35	5.84	(0.32)	(2.08)
Dividends per share	1.63	1.60	1.40	0.60	0.10	0.15
Cash flow from operations per share	9.02	6.42	9.63	8.24	2.04	(1.86)
Common shareholders' equity per share	44.12	41.04	39.56	34.63	28.89	29.31
Common shares outstanding at end of year	2,344,402	2,344,402	2,344,402	2,340,652	2,334,802	2,334,302
Return on total capital invested - %	8.4	6.7	14.6	8.9	(0.6)	(5.2)
Return on shareholders' equity - %	11.1	7.6	17.1	10.3	(1.1)	(6.8)

QUANTITIES SOLD

Paper - tons	375,633	302,968	383,063	363,144	322,771	195,049
Boxboard - tons	32,628	30,326	32,389	31,625	29,118	28,154
Pulp - tons	9,994	12,191	10,533	20,229	49,151	50,255
Lumber - M f.b.m.	56,764	46,081	46,190	49,774	57,153	52,507



	1970	1969	1968	1967
\$	73,730	\$ 91,327	\$ 76,568	\$ 70,681
	1,456	3,771	3,169	2,929
	661	714	735	769
	3,801	5,836	5,890	5,502
	5,673	4,936	3,716	3,640
	811	1,993	322	-
	2,614	4,403	1,161	127
	6,807	1,933	-	579
	9,421	6,336	1,161	706
	25,339	23,186	19,876	15,711
	6,638	12,070	7,315	6,167
	40,243	10,608	2,609	4,168
	12,959	13,769	14,579	15,389
	7,131	8,859	6,991	6,691
	73,600	66,032	60,749	58,864
	1.12	1.90	0.50	0.06
	2.92	0.83	-	0.26
	4.04	2.73	0.50	0.32
	0.90	0.65	0.10	0.60
	2.85	5.20	3.18	2.77
	31.56	28.45	26.41	26.44
	2,331,802	2,320,952	2,300,202	2,226,102
	3.4	5.7	2.1	1.1
	3.7	6.9	1.9	0.2
	221,278	241,734	212,306	203,243
	27,505	27,998	24,053	24,407
	88,387	211,058	180,463	128,731
	39,016	33,033	20,616	27,435



Inflation! The Impact on Fraser

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1976
(in thousands of dollars)

	Historical Cost	Historical Cost Restated to Reflect Purchasing Power of 1976 Dollar
Net sales	\$180,654	\$185,351
Cost of sales, selling, general and administrative expenses	157,594	163,495
Depreciation and depletion	7,542	11,568
	<u>165,136</u>	<u>175,063</u>
	15,518	10,288
Other income and expenses (net)	905	837
Earnings before income taxes	16,423	11,125
Taxes on income	5,372	5,512
Net earnings	\$ 11,051	\$ 5,613
Per common share	\$ 4.71	\$ 2.39

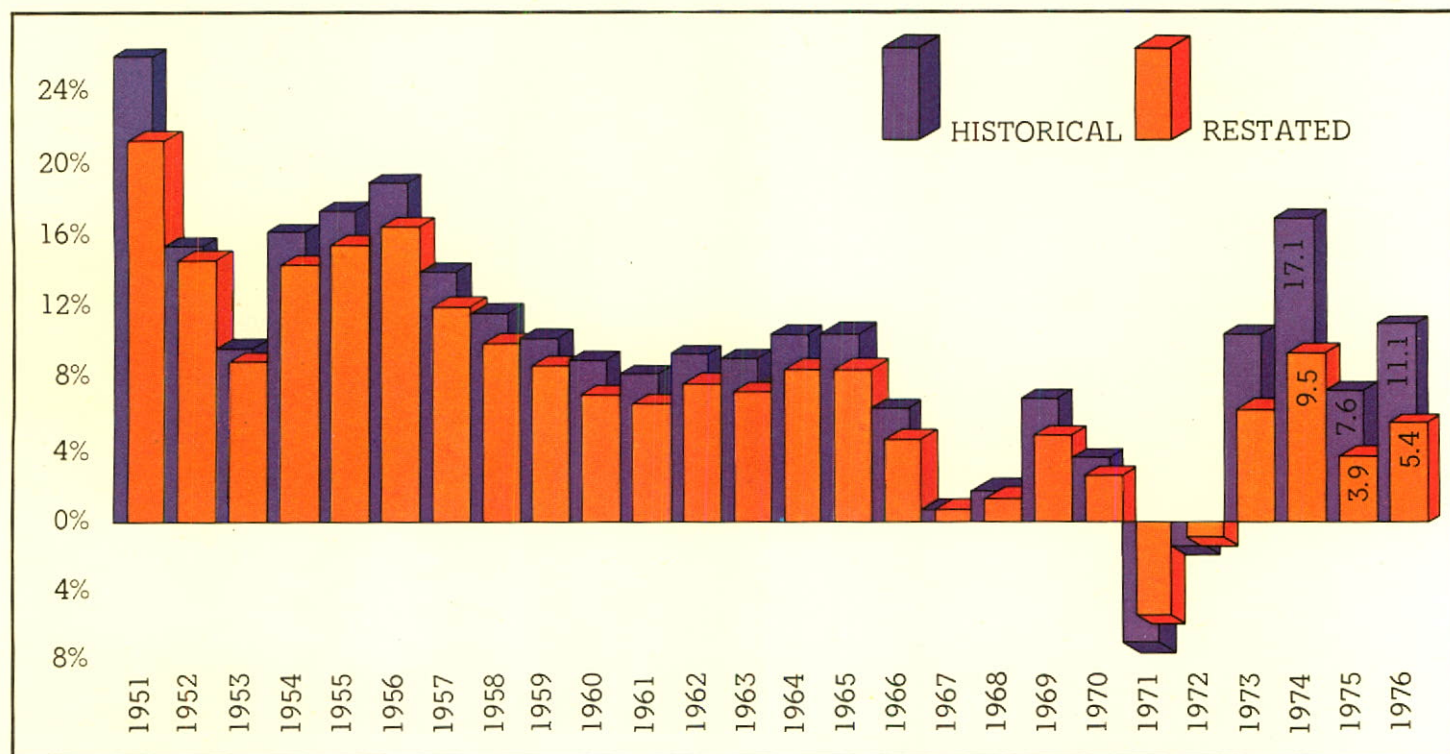
RESTATEMENT PROCEDURE:

Adjusted to reflect the purchasing power of the 1976 dollar by using the Consumer Price Index and the proposed accounting recommendations issued by the Canadian Institute of Chartered Accountants.

RETURN ON SHAREHOLDERS' EQUITY

RESTATEMENT PROCEDURE:

PROFIT: Historical after tax profit (before extraordinary items).
EQUITY: The 1950 year-end historical dollar equity was restated to 1951 year-end dollars by applying the inflation factor for the year 1951 (GNE Implicit Price Index) to which was added the historical dollar equity increase in 1951. Each year thereafter the beginning restated equity was "updated" to current year-end dollars and increased or decreased by the historical dollar equity change during the year.



The return was calculated on the average of the "updated" beginning equity and the ending equity in each year.

Offices, Plants and Products

Fraser Lumber

Mills:

Plaster Rock and Kedgwick,
New Brunswick

Product:

Eastern Canadian Spruce

End Use:

Residential and commercial buildings

Market:

Eastern Canada and Eastern United States

Sales Office:

Edmundston, New Brunswick E3V 1S9

Fraser Pulp

Mills:

Atholville and Edmundston,
New Brunswick

Products:

Bleached and unbleached softwood
sulphite, and groundwood

Market:

North America and overseas

Sales Offices:

Edmundston, New Brunswick E3V 1S9

1155 Dorchester Blvd. West,

Montreal, Quebec H3B 3T6

Fraser Boxboard

Mill:

Edmundston, New Brunswick

Products:

Coated and uncoated folding boxboard

End Uses:

Packaging for food, detergents,
cigarettes, frozen foods,
pharmaceuticals, pet foods, etc.

Market:

Canada

Sales Offices:

1155 Dorchester Blvd. West,

Montreal, Quebec H3B 3T6

600 The East Mall,

Islington, Ontario M9B 4B1

Fraser Papers

Mills:

Fraser Paper, Limited

Madawaska, Maine

(a wholly-owned subsidiary)

Fine Papers:

Five paper machines

Groundwood Papers:

Three paper machines and one
off-machine blade coater

End Uses:

Papers for converting specialties,
commercial printing,
coated and uncoated publications,
directories and catalogues

Market:

United States

Sales Offices:

2 Greenwich Plaza,

Greenwich, Conn. 06830

2300 East Devon Avenue,

Des Plaines, Illinois 60018

This report, except the cover, is printed on
Fra-Opaque paper, 80 lb. Vellum Finish, a product
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**AIB Masses More Guns Against
Business Front. Incomes swim,
Profits Founder Under Controls,
IF IT'S ENERGY CRISIS TODAY,
WHAT WILL IT BE TOMORROW?
Keep Talking, Business,
Labor Encouraged. Canada
Competes Less & Less in World Trade.**